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October 7, 2005

Tom Sutton, Director
Office of Special Districts
157 W. Fifth Street, Second Floor
San Bernardino, CA 92415-0450

**Subject: MANAGEMENT LETTER – CRESTLINE SANITATION DISTRICT,
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

In compliance with Section 26909 of the California Government Code, we have audited the general purpose financial statements of the Crestline Sanitation District for the fiscal year ended June 30, 2005 and have issued our report thereon dated October 7, 2005. In planning and performing our audit of the financial statements, we considered internal controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal controls and does not provide assurance on internal controls. However, we noted certain matters involving internal controls and their operation, which are presented for your consideration.

We do not consider the matter to be a reportable condition under the standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. We have not considered internal controls since the date of our report.

These comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve internal controls or result in other operating efficiencies and are summarized as follows.

STATUS ON PRIOR RECOMMENDATIONS

Our recommendations for further action regarding the recurring prior findings are shown below.

Prior Finding #3: (Recurring Since November 2002):

The District's accounts receivable system does not provide accurate information concerning the fees billed for each billing cycle.

Prior Recommendations

Immediately notify and require the software vendor to correct the system's billing problem. Develop and implement additional procedures to systematically track, reconcile, and collect delinquent sewer fees.

Current Status

The new billing software system is expected to be implemented in October of fiscal year 2005/2006. Costs of billing software system will be allocated among the County Service Areas and water and sanitation districts.

Further Recommendations

Follow up on stated plans to implement new billing system that generates correct accounts receivable reports.

Management's Response

Management has been actively pursuing a resolution to Finding #1 (Previous Year Finding #3). The new billing system will address the lack of an Accounts Receivable monthly balance report. Management anticipates that this finding will be removed in the Fiscal Year 2005/2006 Crestline Audit.

CURRENT YEAR'S FINDINGS AND RECOMMENDATIONS

Finding # 1:

Lack of proper authorization for payment documents.

One of ten payments tested for signature/authorization was signed by an unauthorized employee. The employee was not authorized to approve payments for goods and services from the District's EGS fund until fiscal year 2005/2006.

Recommendation

Establish a process to ensure employees are properly delegated the authority to sign forms on behalf of the department head by submitting a Signature/Fund Custodian Authorization form pursuant to the Internal Controls and Cash Manual, Chapter 16. Remind staff to be aware of the type of departments, funds, and forms for which they are authorized to sign.

Management's Response

Management has addressed Finding #1 (Current Year) by including Crestline's General Ledger accounts to signature authorization forms for various staff members in for Fiscal Year 2005/2006. Management anticipates that this finding will be removed in the Fiscal Year 2005/2006 Crestline Audit.

We wish to thank the management and staff for their full cooperation during the audit.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By: _____
Andrea Cook
Internal Auditor II
Internal Audits Division

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Audit Report Distributed: 8-8-06